

Local Development Program II

(ES-0120)

EXECUTIVE SUMMARY

Borrower:	Republic of El Salvador	
Executing agency:	Fondo de Inversión Social para el Desarrollo Local (FISDL)	
Amount and Source:	IDB: (OC)	US\$ 70.0 million
	Local:	US\$ 7.8 million
	Total:	US\$ 77.8 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	5 years
	Interest rate:	Variable
	Supervision and inspection	1% of loan amount
	Credit fee:	0.75 annually on undisbursed balance
	Currency:	Single currency facility
Objectives:	<p>The overall objective of the program is to improve the living conditions of poor people living in vulnerable municipalities and communities, using decentralized and participative methods that promote investments within the National Local Development Strategy. The specific objectives are to: (i) increase access of poor communities to basic services through the financing of social and economic infrastructure projects; (ii) build the capacity of municipal governments as well as community associations and non-government organizations to participate in sustainable local development processes; and (iii) strengthen the FISDL's normative and monitoring role of local development as well as its institutional management capacity.</p>	
Description:	<p>This program will support the government's reconstruction effort resulting from the two earthquakes of January and February 2001 within the framework of the ongoing local development process outlined in the ENDL and executed by the FISDL through the Local Development Program (PDL). It builds on the lessons learned from the IDB's ongoing operation which reconfirms that sustainable local development depends on capacity building of local actors, especially municipal governments, through a process of learning by doing.</p> <p>The proposed Program has three components: (i) Investments in priority social and economic projects; (ii) Capacity building of local actors; and (iii) Development of the FISDL's policy role and management capacity.</p>	

Component 1. Investments in social and economic infrastructure (US\$56,416,000)

In line with government priority to assist earthquake affected areas, eighty per cent (US\$45.1 million) of the investment resources will be allocated to reconstruction of basic economic and social infrastructure. These resources will be targeted to approximately 152 municipalities affected by the earthquakes--identified by their level of poverty and proportion of housing stock, health and education infrastructure destroyed.

The allocation of resources to these municipalities will use two mechanisms. A one-time amount will be earmarked ex-ante to each municipality using a sliding scale based on the percentage of housing destroyed and the damage to health and education infrastructure. The base of the scale will be US\$50,000 and its ceiling will be US\$150,000.

The second mechanism will be the competitive bidding mechanism used by FISDL. A municipality will be able to access these additional funds once it has fully committed its earmarked resources. FISDL will define groups of similar municipalities that will compete on an equal footing.

The remaining twenty per cent of financial resources available for investments (US\$11.3 million) will be allocated to approximately 86 poor municipalities (quintiles 1 and 2) using the competitive bidding mechanism. These municipalities were not affected by the earthquake, but have been historically marginalized from national development processes and have limited capacity to generate additional revenue. The FISDL will define groups of similar municipalities that will compete on an equal footing.

The approximately 24 municipalities that will not have access to investment resources comprise less poor municipalities (quintiles 3, 4 and 5) that were either not affected by the earthquakes or reported less than 10% destruction to their housing stock. These municipalities will have access to training and technical assistance resources to augment their financial, administrative and management capacity.

All municipalities will have to comply with basic eligibility criteria to access investment resources including: (i) the existence of a municipal development plan elaborated on the basis of a PPL process; (ii) evidence that the municipality has presented quarterly reports on the use of FODES resources to the corresponding entity; and (iii) evidence that the municipality is using its own resources to finance priority projects identified in municipal development plans elaborated using local participatory planning at

the municipal level (PPL).

Under the program the FISDL will continue its policy of responding to community driven demands and preferences. Three broad categories of eligible investments have been identified based on the PPL. Social projects, economic infrastructure projects and priority community projects. The FISDL will continue to apply its list of ineligible projects which will be monitored during program execution. All projects will have to be outsourced in order that municipal governments acquire experience in this area.

The program will also finance the replacement of municipal buildings declared inhabitable by the corresponding authority or destroyed in both cases by the earthquakes under the following criteria: (i) the investment has been prioritized in the PPL; (ii) a minimum cash counterpart by municipal authority of 50% of total project cost; and (iii) a maximum FISDL contribution of US\$100,000.

While the majority of investments will be managed by municipal governments, provision will be made for community associations and NGOs to compete in the bidding mechanism and execute investment projects.

Component 2. Capacity building of local actors (US\$7,050,000)

This component will finance technical assistance and training in the following areas:

Project formulation, supervision and sustainability (US\$1.0 million) The program will finance project formulation according to the technical guidelines established by FISDL. Assistance will also be provided for the development of sustainability plans covering project operations and maintenance and environmental considerations as well as tariff charges, where applicable. The program will strengthen the capacity of municipal authorities to supervise the execution of infrastructure projects.

Social Auditing (US\$500,000). The program will also finance activities to strengthen the capacity of community organizations to undertake oversight of project design, implementation and operation.

Municipal Participatory Planning (US\$2.2 million). The program will finance municipal governments to: (i) undertake municipal participatory planning (PPL) resulting in municipal development plans; (ii) build municipal capacity to institutionalize PPL processes; and (iii) revise existing municipal development plans. The package will be open to all 262 municipalities.

The PPL will be implemented according to agreed criteria to

ensure gender equity and equality, transparency and its institutionalization within municipalities. It will also incorporate additional criteria related to risk management and land use planning. The component will also finance PPL exercises between two or more municipalities associated in micro-regions.

Municipal Strengthening (US\$3,350,000).

- a. Municipal Financial Administration.** The sub-component will finance technical assistance and training to increase revenue generation and financial administration capacity with the objective of establishing creditworthiness. In addition the program will support the installation of municipal integrated financial administration systems in accordance with national norms, including the purchase of equipment and software.

The sub-component will benefit approximately 20 municipalities which will contribute no less than 10% toward the cost of the program. Municipalities will sign an agreement with FISDL, specifying program activities and benchmarks.

- b. Municipal Management Capacity.** The program will strengthen municipal capacity to manage and administer the decentralized project cycle, including the procurement and contracting of goods and services as well as the preparation and implementation of project sustainability plans. This program will also develop managerial capacity in areas such as human resource development, municipal information systems and inter-agency coordination at the local level. The FISDL will manage the outsourcing of the technical assistance provision; access will depend on the presentation of a technical assistance plan by a municipal government.

Component 3. FISDL's policy development and management capacity (US\$1.5 million)

This component will support the FISDL to strengthen: (i) its policy development and implementation capacity related to its role as lead agency in the execution of the ENDL; and (ii) its technical and administrative capacity.

The program will support: (i) the elaboration and execution of instruments, action plans and monitoring of capacity building related to municipal financial administration; (ii) the elaboration and monitoring of poverty targeting within PPL; and (iii) the development and introduction of risk management and land use planning tools into PPL.

The component will also provide funds to train FISDL's municipal advisors in accordance with their revised terms of reference. This will include PPL, municipal financial administration, gender

equity and equality, environmental impact assessment, bidding and contracting related to outsourcing, monitoring and evaluation of municipal capacity, project execution and sustainability plans, and social auditing.

The component will also augment FISDL's capacity to monitor and evaluate the impact of: (i) investments in social and economic infrastructure on the living conditions of the poor; (ii) technical assistance and training on the strengthening of the capacity of municipal governments and communities; and (iii) FISDL's performance as lead agency for ENDL and implementation of the PDL. This exercise will include the definition of base line data and indicators.

In addition, the component will support the FISDL to implement the recommendations of an Organization and Methods evaluation financed by the Bank, including: (i) revision of human resource strategy; (ii) revision of internal procedures, systems and manuals; and (iii) training of managerial staff.

The program will support the updating of the list of eligible providers of goods and services as well as pre-qualifying procedures. The component will also support the development and implementation of a social marketing strategy that will inform the wider public of their rights and responsibilities within the local development process. In addition, the component will support the strengthening of the institutional framework and operational relationships between the FISDL and ISDEM.

Other program costs (US\$270,000)

The program will also finance: (i) consultant services to assess and report on program advances for annual program reviews; (ii) annual external audits; and (iii) a mid-term evaluation.

Bank's country and sector strategy:

The Bank's strategy in El Salvador supports programs that: (i) promote economic growth and increase competitiveness; (ii) reduce poverty and develop human capital; and (iii) support state modernization and enhance governance. This strategy recognizes the importance of strengthening citizen participation, the building of government-civil society partnerships as well as the creation of broad political consensus behind key development programs. A priority area is support for the government's local development strategy and improvements in local public management and citizen participation mechanisms.

Environmental/ social review:

Environmental. The program will finance small scale social and economic infrastructure projects whose environmental impact is expected to be minimal. The FISDL has incorporated environmental issues in its policies and programs, and will build

environmental impact assessment capacity in municipalities. The program will support the elaboration and implementation of sustainability plans, which will include environmental considerations. It will also support incorporation of land use planning and risk management into the PPL and will provide technical assistance to municipalities to facilitate implementation.

Social Impact. The program will finance social and economic infrastructure projects that will benefit poor people. The program is designed to increase the participation and capacity of local actors in local development process. The PPL will improve the level of response to the priorities of poor populations, including those most affected by the recent earthquake. A basic principle of the program is to promote the equal participation of men and women in defining needs and priorities for local development in all phases of the project cycle and in the training activities undertaken locally.

Benefits:

The Program will allow municipalities to interact with their communities to make decisions about investments. This will ensure more efficient use of public resources. The program will support the earthquake reconstruction effort within the framework of the ongoing local development process. Poor municipalities not affected by the earthquake will also benefit with resources for investment and capacity building.

The capacity-building component of the program will result in municipalities becoming more competent in their core functions. The program will finance technical assistance and training to increase capacity of the largest municipalities in revenue collection and financial administration with the objective of making them credit worthy and will strengthen municipal management functions in all municipalities. The use of performance indicators to measure changes in municipal capacity during the program will allow FISDL to assess which types of technical interventions are most effective to order to adjust the packets of assistance accordingly.

Risks:

The risks associated with the capacity-building component have to do with the willingness of municipalities to participate, since their involvement is voluntary, and FISDL's promotion efforts to encourage their participation. The success of the financial strengthening component will be affected by the municipal fiscal framework. The success of the program also depends on the availability of a pool of service providers and on ensuring an equilibrium between the large increase in demand resulting from the program and the supply of adequate pre-qualified providers.

Special contractual clauses:

Special conditions prior to first disbursement: Evidence that an agreement has been signed between the borrower and FISDL regarding the transfer of funds and the implementation of the program. (par. 3.1)

The introduction of the program's operating regulations in accordance with the terms agreed with the Bank (par. 3.7).

Other Conditions: The loan contract will contain other standard conditions, relating, among others things to monitoring and evaluation, audits, maintenance, procurement and contracting of services.

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704). (Par. 4.21 to 4.23). Furthermore, this operation qualifies as Poverty Targeted Investment (PTI). (Par. 4.20). The borrower will be using the 10 percentage point in additional financing.

Exceptions to Bank policy:

None

Procurement:

All procurement under the program will be done in accordance with Bank rules. International competitive bidding will be required for construction of works in excess of US\$1.0 million, consulting services in excess of US\$200,000 and goods and related services in excess of US\$250,000. The minimum size of works that will be financed under the program will be US\$30,000. All works will be outsourced.

Construction works, procurement of goods and related services and of consulting services of values below those requiring international competitive bidding will use the national contracting law (*Ley Nacional de Contrataciones y Adquisiciones del Sector Público*), provided it does not contradict the Bank's basic procurement principles.